

Written testimony submitted to the House Agriculture Committee by Pat Keim representing Columbia Grain, Inc.

EXHIBIT 1
DATE 2-12-13
HB 344

House Bill 344 Ag Commodity Bonding

Mr. Chairman, Members of the House Agriculture Committee

I am Pat Keim, representing Columbia Grain, Inc. CGI is a commodity dealer and warehouse with over 20 locations throughout Montana as well as facilities in Minnesota, North Dakota, Idaho, Oregon, and Washington. We are the major exporter of Montana ag commodities.

Montana law requires that anyone acting as an agricultural commodity dealer or warehouse doing business in Montana must be licensed and bonded. Dealers are currently required to post bond up to \$1,000,000 and 2% of the estimated value of all commodities anticipated to be purchased in the coming 12 months as a condition of their license.

HB 344 raises the amount of that bond to \$3,000,000 and 5% of the estimated business for the coming year. For Columbia Grain, Inc., which has never defaulted, it represents a 400% increase in out of pocket bonding costs. That added cost will have to be recouped from some place.

The real problem with commodity defaults in Montana comes from traders who do not bother to get the required license or bond coverage. Generally these are out of state entities that have no nexus in to Montana. They have no facilities and are basically paper traders. They pay no property taxes in Montana, no business income tax, no registration fees, and don't bother to get a license. They contact producers directly and offer them slightly higher prices. They can do this because they have no fixed facility expense. They come and they go and they skirt the law and they take business from the licensed dealers that are bonded and they leave the seller no recourse when they default. They are the source of the bulk of the defaults that do occur and this bill does nothing to capture them. All this bill does is penalize the legitimate local dealer with added cost.

We suggest the best solution to this problem is to create an indemnity fund that would protect producers better from default by all dealers including those unlicensed, unbonded traders. Proceeds for the fund should be generated from portion of the price sale of the commodity. We also suggest that there needs to be more aggressive enforcement of existing bonding requirements by the Department of Agriculture.

The increases called for in this legislation penalize legitimate Montana based commodity dealers and places them at a competitive disadvantage by raising their cost of doing business verses that of unlicensed, unbonded competitors who are already siphoning off business. By increasing the legitimate dealer's expenses it has the unintended consequence of potentially weakening legitimate dealers and of lowering prices paid to producers.